

**Audit Committee  
Meeting Minutes  
May 04, 2012**

The Bethany Beach Audit Committee held a meeting on Friday, May 04, 2012 at 10:00 a.m. in the Town Meeting Room, 214 Garfield Parkway, Bethany Beach, DE 19930.

Members present: Patrick Sheplee, Chairman, who presided; Monte Wisbrock, and Thomas Defibaugh.

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; TGM Group LLC representatives, Roy Geiser, Betsy Eicher and Rachael Jacobs; Councilpersons, Jerry Dorfman, Jack Gordon and Lew Killmer; Administrative Secretary, Lindsey Good; and interested members of the public, Chuck Peterson, Bruce Frye, and Pat Neary.

Mr. Sheplee called the meeting to order at 10:00 a.m.

Approval of Agenda

Mr. Wisbrock made a motion to approve the agenda. The motions was seconded by Mr. Defibaugh and unanimously approved.

Approval of Minutes from the January 13, 2012 Meeting

After a couple of amendments, Mr. Defibaugh made a motion to approve the minutes dated January 13, 2012 as amended. Seconded by Mr. Wisbrock, the motion was unanimously approved.

Report by Accounting Firm TGM Group LLC as to This Year's Audit

Mr. Geiser of the TGM Group LLC, gave the following report:

The TGM Group LLC is a regional accounting firm located in Salisbury, Maryland. The firm consists of approximately forty (40) employees, and many of their clients include governments and businesses that are about the same size as Bethany Beach.

He feels that the Town of Bethany Beach is a "model town" from an auditing perspective. Most other towns that are the same size as this Town do not have an Audit Committee or an Internal Auditor. The Town also possesses good policies and internal controls that ensure its financial security. The enterprise funds that the Town has are bringing in sufficient revenue and the audit confirmed everything overall to look good.

Mr. Geiser explained that their auditing firm, TGM Group LLC, uses the Fraud Risk Assessment questionnaires that are completed by the Committee, random employees, and several other individuals to help determine if there are any specific areas that need to be examined. The firm varies its approach and auditing tools every year to maintain the unpredictability of the audit.

He stated that the purpose of this preliminary meeting is for the external auditors to address any comments and questions that the Committee may have. At previous meetings, they have

discussed modifications to accounting standards that will affect the Town, such as changes to the reporting of pensions, post-employment benefits and the fund balance. However, this year there are not many issues that need to be discussed since there are no new standards to consider.

Mr. Geiser acknowledged that the audit fieldwork is progressing well and should be complete by the end of the day. The remainder of work will be completed at the firm's home office and any remaining information can be received by e-mail. Ms. Eicher of TGM Group LLC, will be finishing the audit and Ms. Jacobs of TGM Group LLC will begin preparing the financial statements. Mr. Geiser expects to have the preliminary draft prepared within a few weeks, which they will send to Ms. Connery to review and then generate the Management's Discussion and Analysis (MD&A). Once this is complete, they will produce the full draft of the Financial Statements.

Mr. Geiser noted that he reviewed minutes from an Executive Session of the Town Council from February 2012 and found that a statement regarding the responsibility of the TGM Group LLC was not completely accurate. He clarified that the primary responsibility of the audit they complete is to review the financial information, and it does not include an in depth review of internal controls.

Mr. Dorfman thanked Mr. Geiser for his clarification.

#### Questions/Comments by the Audit Committee and Internal Auditor

Mr. Pat Neary, property owner, questioned if employees that are terminated still have access to the financial system.

Ms. Connery explained that the employees who recently ended their employment with the Town, the Public Safety Director and two police officers, did not know the passwords or have access to the financial system, and the financial system is only accessible from inside the Town Hall. Also, she immediately cancels the account of any former employee that used a Town credit card and the Police Department changes the Town Hall's security system to not allow entree of previous employees into the building. Keys and Town items are collected from the employee the very day that they resign.

Mr. Neary emphasized that there should be a written policy in the Employee Policy Manual on this matter, if there isn't already.

It was determined that the Employee Policy Manual does state and enforce financial security of the Town regarding previous employees.

Mr. Neary noted that when he receives tax bills from the Town, it includes revenues that belong to the General Fund, Sanitation Fund and Water Fund all on one bill. He questioned if these funds are commingled.

Ms. Connery replied that when a bill is received, the computer system tracks the revenues that belong to each fund so that money collected for a specific fund is only utilized for that fund.

Mr. Geiser added that they thoroughly review this process from beginning to end to ensure that it is being done correctly while they are completing the audit.

Mr. Neary inquired how projects that are crossed between fiscal years are budgeted, noting that he specifically would like to verify whether invoices of projects are charged to the correct year.

Ms. Connery explained that when a capital project is not completed by the end of one fiscal year any remaining budget is carried over into the new fiscal year and the project is reported in the financial statements as construction in progress. She continued that the Town makes a decision on which fiscal year an invoice is charged to, depending on when the shipment arrived or when the service was performed.

Mr. Geiser acknowledged that the audit they perform includes extensive testing to verify that invoices are recorded in the appropriate period.

Mr. Sheplee stated that Ms. Connery maintains excellent financial controls, and he is confident that the external auditors confirm that the timing of when the invoices are recorded is accurate.

Mr. Sheplee asked Mr. Geiser to explain the audit's scope for the internal controls.

Mr. Geiser responded that the TGM Group LLC follows the standards on risk-based auditing by identifying key areas, reviewing policies, interviewing employees, documenting the internal controls in place, and then they decide if they will further test and rely on those controls during their audit. Random testing of transactions is also performed. He noted that they can also reduce testing in some areas because the Town has an Internal Auditor, Phil Rossi, who reviews the Town's financial transactions constantly. If they discovered a material weakness in their internal controls, it would be reported to the Committee. They have not found any errors in the years that they have audited the Town.

Mr. Sheplee questioned if the audit firm is ever contracted to do formal reviews of internal controls and if he feels the Town would benefit from a review like this.

Mr. Geiser expressed that he did not think the Town would benefit from this type of formal review, since there is an Internal Auditor and a written Audit Plan. He added that it is a very expensive process.

Mr. Neary asked when the final Audit will be complete.

Mr. Geiser replied that it will probably be completed by July.

Ms. Connery added that the Town Code states that the audit must be complete in 120 days, and this audit should be completed by mid-July.

Mr. Rossi emphasized that when he performed his internal audit and reviewed fixed assets owned by the Town, every manager was very cooperative and presented every piece of equipment that he requested. He said that the Town has a very good management team.

Adjourn

Mr. Defibaugh made a motion to adjourn to adjourn the meeting. Mr. Wisbrock seconded the motion and it was unanimously approved. The meeting was adjourned at 10:45 a.m.

The next meeting will be scheduled for July at a later time.

Mr. Sheplee expressed his appreciation to the Committee and staff for all of their hard work.